

APPENDIX A

**APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC
SERVICE COMMISSION IN ADMINISTRATIVE CASE NO.
302 DATED MARCH 25, 1986**

FILED

3-14-86 C 11 A.M.
10 ADMINISTRATIVE REGULATIONS

Susan C. Wunderlich

PUBLIC PROTECTION AND REGULATION CABINET REGULATIONS COMPILED
Public Service Commission

807 KAR 5:067. Purchased water adjustment clause.

RELATES TO: KRS Chapter 278

PURSUANT TO: KRS 13.082, 278.030(1), 278.040(3)

NECESSITY AND FUNCTION: KRS 278.030(1) provides that all rates received by a water utility subject to the jurisdiction of the Public Service Commission shall be fair, just and reasonable. This regulation prescribes the requirements under which a water utility may implement a purchased water adjustment [clause] designed to recover the increased costs of water purchased [, where the water utility is not financially able to absorb an increase from its supplier].

Section 1. Water Utility Base Rate. The supplier's rate in effect immediately prior to the most recent increase shall be considered the base rate.

Section 2 [1]. Application for Change in Base Rate. [The rates a water utility is currently authorized to charge its customers are based upon the wholesale cost of water to that water utility pursuant to valid contracts or wholesale tariffs on file with the commission.] For purposes of a purchased water adjustment clause, the [this] supplier's [wholesale] rate as defined in Section 1 shall be considered as the base rate for purchased water and any increase or decrease in the base rate shall be considered the changed rate.

(1) In the event there is a change in the base rate, the utility shall file with the commission[er] the following information:

(a) A copy of the wholesale supplier's tariff effecting a change in the wholesale supplier's base rate and a statement from the wholesale supplier evidencing the effective date of the changed rate;

(b) A detailed statement showing the total gallons and actual cost of water purchased each month [under the base rate] for a twelve (12) month period ended within ninety (90) days of the filing date and showing billing both under such base rate as defined in Section 1 and also under the changed rate as defined in Section 2;

(c) A detailed statement showing the total gallons of water sold and revenues for the same twelve (12) month period.

(d) A balance sheet and statement of operating expenses and revenues for the most recent twelve (12) month period for which that information is available;

(e) In the event of an increase only, evidence that the water utility has notified its customers of the proposed rate revision;

(f) Revised tariff sheets reflecting the rates the applicant

proposes to charge; and

[(g) Such other information as the commission may request for a proper determination of the purchased water adjustment.]

[(2) The commission may require that the balance sheet and statement of expenses and revenues furnished pursuant to subsection (1)(d) of this section be updated to within ninety (90) days of the filing of an application and that the updated information corresponds to the same twelve (12) month period as the water purchased information furnished pursuant to subsection (1)(b) of this section.]

(2) [(3) [Upon receipt of all the necessary information, the commission will review the effect of the changed rate upon the applicant's operations and if an increase is proposed determine whether all or a part of the increase can be absorbed by the applicant.] An applicant shall not implement its proposed [revised] rates until the commission issues an order authorizing the applicant to adjust its rates. [If an adjustment is authorized, the supplier's changed rate shall become the supplier's base rate for use in future applications.]

(3) [(4)] The maximum amount of the adjustment so ordered shall not produce revenue adjustments greater than the difference between the purchased water billed at the base rate and the purchased water billed at the changed rate. Where the applicant's unaccounted for water loss is determined to be greater than either 15 percent or the percent allowed in the applicant's last rate case, water purchases as defined in subsection (1)(b) of this section shall be adjusted to allow only the unaccounted-for water loss found reasonable.

(4) [(5)] The notice required by subsection (1)(e) of this section may be accomplished by a bill insert[.] or by publication once a week for three (3) consecutive weeks in a newspaper of general circulation. Such notice shall set out the rates proposed to be charged by the applicant to its customers and shall contain the following language:

The rates contained in this notice are the rates proposed by (name of utility). However, the Public Service commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for consumers other than the rates in this notice.

Section 3 [2]. Calculation of the Purchased Water Adjustment. If a change is made in a base rate charged to a water utility by its supplier(s); the unit charges of the wholesale tariff shall be increased or decreased by a purchased water adjustment calculated as follows:

(1) Water purchases shall be computed at the supplier's base rate and the supplier's changed rate using a period of twelve (12) calendar months ending within ninety (90) days of the filing date of the application [preceding the month of the effective date of the supplier's rate change]. The difference between these amounts shows the total change in the applicant's purchased water costs.

(2) The total change in purchased water costs shall be

divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons, unless the applicant's unaccounted-for water loss exceeds either fifteen (15) percent or the percent allowed in the applicant's last rate case.

(3) In instances where the water loss exceeds fifteen (15) percent and no reasonable percentage has been determined in its last rate case, the actual water sales shall be divided by eighty-five (85) percent yielding the maximum allowable water purchases. Where a reasonable percentage of unaccounted-for water loss was determined in the applicant's last rate case, the actual water sales shall be divided by (one hundred (100) percent minus the percentage found reasonable) yielding the maximum allowable water purchases. The maximum allowable water purchases shall then be multiplied by the supplier's base rate and the changed rate. The difference between these amounts will be [change in cost per cubic foot or gallons, yielding] the total allowable change in the applicant's purchased water costs. The total allowable change shall then be divided by the actual number of cubic feet or gallons sold, yielding the purchased water adjustment expressed in cents per cubic feet or gallons.

Section 4 [3]. Procedure for Distribution of Refunds from Suppliers. In the event a water utility receives a refund from its supplier for amounts previously paid, the water utility shall immediately apply to the commission for authority to make adjustments on the amounts charged customers' bills under this regulation as follows:

(1) The total refund received by the water utility shall be divided by the number of cubic feet or gallons of water the water utility estimates it will sell to its customers during the two (2) month period beginning with the first day of the month following receipt of the refund, yielding the refund factor to be applied against each cubic foot or gallon of water sold thereafter.

(2) Effective with meter readings taken on and after the first day of the second month following receipt of the refund, the water utility will reduce by the refund factor any purchased water adjustment that would otherwise be applicable during the period. The period of reduced purchased water adjustment shall be adjusted, if necessary, in order to most nearly approximate the total amount to be refunded. The water utility shall make full distribution of the refund within two (2) months.

(3) In the event a water utility receives a large or unusual refund, the water utility may apply to the commission for a deviation from the procedure for distribution of refunds specified herein.

[Section 4. Water Utility Tariffs. Every water utility that makes an application under Section 1 shall have a tariff on file with the commission containing a purchased water adjustment clause conforming to this regulation.]

REGULATORY IMPACT ANALYSIS

Agency Contact Person: Barbara Jones

(1) Type and number of entities affected: Water utilities that purchase water. 109.

(a) Direct and indirect costs or savings to those affected: Shorter period before cost recovery and no absorption test. Therefore, significant savings to utility.

1. First year: Shorter period savings = \$100,000 and Absorption test savings = \$200,000.

2. Continuing costs or savings: Same.

3. Additional factors increasing or decreasing costs (note any effects upon competition): None

(b) Reporting and paperwork requirements: Decreases accounting filing

(2) Effects on the promulgating administrative body: Decreases PSC review period and avoids information request.

(a) Direct and indirect cost or savings: Decreases PSC review period and avoids information request.

1. First year: Will free up time of staff person assigned to case.

2. Continuing costs or savings: Same.

3. Additional factors increasing or decreasing costs: None.

(b) Reporting and paperwork requirements: Simplified order and fewer information requests.

(3) Assessment of anticipated effect on state and local revenues: None.

(4) Assessment of alternative methods; reasons why alternatives were rejected: No alternatives would pass through these purchased water costs on a more expeditious basis, except automatic pass through. Automatic pass through rejected to protect interests of ratepayer as well as utility.

(5) Identify any statute, administrative regulation or government policy which may be in conflict, overlapping, or duplication: None.

(a) Necessity of proposed regulation if in conflict:

(b) If in conflict, was effort made to harmonize the proposed administrative regulation with conflicting provisions:

(6) Any additional information or comments: None.

Tiering:

Was tiering applied? No. Reduction of filing requirements and cost savings as discussed previously should be available to all utilities that purchase water, whatever their size.

Adopted:

Approved as to Form and Legality:

Ellen Elise Critcher
Attorney

Richard D. Homan
Chairman

Final Approval:

Robert M. Davis
Secretary, Cabinet for Public
Protection and Regulation

Approved: March 14, 1986

PUBLIC HEARING SCHEDULED: A public hearing on this regulation will be held on April 29, 1986, at 9 A.M., EDT, in the Public Service Commission Hearing Room No. 1 on Schenkel Lane in Frankfort, Kentucky. Those interested in attending this hearing shall contact: Forest M. Skaggs, Secretary, Kentucky Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602.